Government of Saskatchewan

Annual Report and Financial Statements 1998-99

Oil and Gas Environmental Fund
for the fiscal year ending March 31, 1999

Saskatchewan Energy and Mines

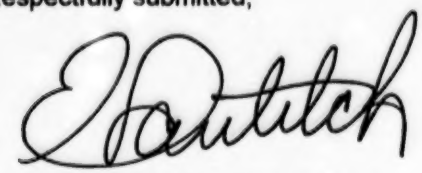
Letters of Transmittal

To His Honour J.E.N. Wiebe
Lieutenant Governor of the Province of Saskatchewan

Dear Sir:

I have the honour to submit the Annual Report and Financial Statements of the Oil and Gas Environmental Fund for the fiscal year ending March 31, 1999.

Respectfully submitted,



The Honourable Eldon Lautermilch
Minister of Energy and Mines
Province of Saskatchewan

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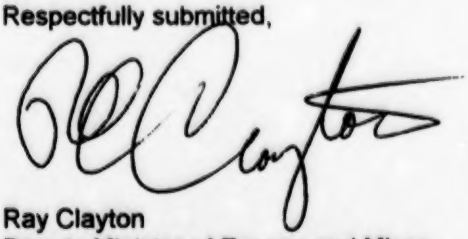


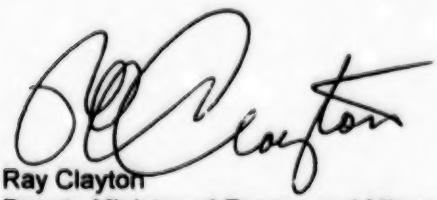
Ray Clayton
Deputy Minister of Energy and Mines
Province of Saskatchewan

Management's Responsibility for Financial Statements

The accompanying financial statements included in the annual report of the Oil and Gas Environmental Fund for the year ended March 31, 1999, are the responsibility of management of the Department of Energy and Mines. Management has prepared the financial statements in accordance with generally accepted accounting principles. The financial information presented elsewhere in the annual report is consistent with that in the financial statements.

To ensure the integrity and objectivity of the financial data, management maintains a comprehensive system of internal controls including written policies and procedures, and an organizational structure that segregates duties. These measures provide reasonable assurance that transactions are recorded and executed in compliance with legislation and required authority, that assets are properly safeguarded, and that reliable financial records are maintained.

The financial statements have been audited by the Office of the Provincial Auditor. Their report to the Members of the Legislative Assembly, stating the scope of their examination and opinion on the financial statements, appears on page 4.



Ray Clayton
Deputy Minister of Energy and Mines
Province of Saskatchewan

Regina, Saskatchewan
July 21, 1999

Introduction

The Oil and Gas Environmental Fund was established by the provincial government in 1989 to replace an out-dated well deposit system and to provide the government with a means to address unique oil and gas related environmental problems.

The legislative authority for the fund and the specific provisions of the fund are found in *The Oil and Gas Conservation Act* and the regulations thereunder.

The fund is administered by the Department of Energy and Mines.

Program Purpose

The fund guarantees the proper drilling, completion, and abandonment of wells, including surface restoration. The fund also allows the government to respond to a major spill or environmental problem when liability for the problem cannot initially be determined.

The following amounts are designated for deposit to the fund:

- a one-time assessment of $100 per well in existence as of May 1989 to a maximum of $20,000 per company;
- all deposits, held pursuant to the old well deposit system, which were not claimed within one year following the date of introduction of the Oil and Gas Environmental Fund;
- all interest and dividends received on loans and investments of the fund;
- all gains on disposal of securities in which any part of the fund has been invested;
- moneys recovered from a company for any moneys expended for any work or activity the company would be responsible to perform, and moneys recovered from the disposal of any equipment or material left by the company at the well site; and
- where the moneys on deposit are insufficient, $100 of each well licence application fee may be directed to the environmental fund.

When all other remedies have been exhausted or an emergency exists, moneys may be expended from the fund for the following purposes:

- conducting or completing the abandonment and surface restoration of a well, structure test hole, oil shale core hole, or related facility that has been left incomplete by the insolvency or disappearance of the owner or operator; and
- containment, clean-up, and surface restoration of a problem that is a major environmental problem that arises from oil or gas exploration, development, production, or transportation operations.

The expenditure of moneys from the fund for any of the purposes described above does not relieve the owner or operator of the responsibility to maintain the well, well site, structure test hole, structure test hole site, oil shale core hole, oil shale core hole site, or related facility in compliance with the Act and the regulations and orders made pursuant to the Act.

The minister may recover from the owner or operator any moneys expended for any work or activity that the owner or operator would be responsible to perform. The minister may take possession and dispose of any equipment or material left by the owner or operator at the well, structure test hole, or oil shale core hole.

Program Activities

During the 1998-99 fiscal year, tenders were issued for the abandonment and surface restoration of wells in the Kindersley and Kamsack areas. The total cost to the fund was $86,567.

Provincial Auditor Saskatchewan

1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V7

Phone: (306) 787-6398
Fax: (306) 787-6383
Internet e-mail: info@auditor.sk.ca

AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the balance sheet of the Oil and Gas Environmental Fund as at March 31, 1999 and the statement of revenue, expenditure and net assets for the year then ended. The Fund's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 1999 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Wayne Strelioff

Regina, Saskatchewan
May 18, 1999

Wayne Strelioff, CA
Provincial Auditor

OIL AND GAS ENVIRONMENTAL FUND
BALANCE SHEET
As at March 31

	1999	1998
ASSETS		
Current:		
Due from General Revenue Fund (Note 4)	$ 2,295,194	$ 2,265,268
FUND BALANCE		
Net Assets (Statement 2) (Note 3)	$ 2,295,194	$ 2,265,268

(See accompanying notes to the financial statements)

OIL AND GAS ENVIRONMENTAL FUND
STATEMENT OF REVENUE, EXPENDITURE AND NET ASSETS
Year Ended March 31

	Budget	Actual	
	1999	1999	1998
Revenue:			
Interest (Note 4)	$ 90,000	$ 116,493	$ 83,226
Expenditure:			
Well site restoration contracts	182,000	86,567	---
Excess of revenue over expenditure	$ (92,000)	29,926	83,226
Net Assets beginning of year		2,265,268	2,182,042
Net Assets end of year - to Statement 1		$ 2,295,194	$ 2,265,268

(See accompanying notes to the financial statements)

OIL AND GAS ENVIRONMENTAL FUND
NOTES TO THE FINANCIAL STATEMENTS
March 31, 1999

1. Authority

The Oil and Gas Environmental Fund was established on May 17, 1989, pursuant to Section 18.2 of *The Oil and Gas Conservation Regulations, 1985* (Regulations). The purpose of the Fund is to provide a mechanism to respond adequately to environmental problems associated with the exploration, development, production, and transportation of oil and gas. The Fund originated through a one-time assessment of $100 per well to a maximum of $20,000 per company.

2. Significant Accounting Policies

These financial statements are prepared in accordance with generally accepted accounting principles.

3. Net Assets

The net assets represent assessments raised in accordance with subsection 18.3(2) of the Regulations less well site restoration costs. The net assets, together with any future recoveries of well site restoration costs, are available to provide for expenditures under section 18.4 of the Regulations which relate to the:

a) restoration of abandoned well sites, as a result of disappearance or insolvency of the well owner or operator.

b) containment or clean up of major environmental problems arising from oil and gas exploration, development, production or transportation operations.

4. Related Party Transactions

Included in these financial statements are transactions with departments related to the Fund by virtue of common control by the Government of Saskatchewan.

The Fund's money is on deposit with the General Revenue Fund (GRF). The GRF calculates and pays the Fund's interest on a quarterly basis using the Government's thirty-day borrowing rate and the Fund's average daily account balance.

The Fund has not been charged with any administrative costs and no provision for such costs is reflected in these statements. These costs are borne by the Department of Energy and Mines - General Revenue Fund.

5. Budget

The budget for the Fund is included with the Department of Energy and Mines budget submission to Treasury Board. Treasury Board approves the Fund's budget annually.

Supplementary Information

Supplier Payments

Listed are payees who received $20,000 or more for the provision of goods and services.

Eagle Energy Ltd.	$40,000
Keneco Environmental Services Inc.	45,000
Payees under $20,000	1,567
	$86,567